

TRIPP COUNTY WATER USER DISTRICT
FINANCIAL REPORT
DECEMBER 31, 2011 and 2010

TRIPP COUNTY WATER USER DISTRICT

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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Tripp County Water User District
Winner, South Dakota

We have audited the financial statements of Tripp County Water User District, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated May 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tripp County Water User District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiency described in the accompanying schedule of current audit findings, and responses (item 2011-01) to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

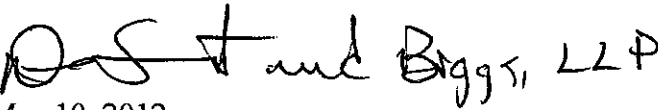
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tripp County Water User District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Tripp County Water User District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. We did not audit the Tripp County Water User District's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the Tripp County Water User District, federal awarding agencies, pass through entities, state granting agencies, and the South Dakota Legislature and is not intended to be and should not be used by anyone other than these specific parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.


May 10, 2012

TRIPP COUNTY WATER USER DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Prior Financial Statement Findings

2010-01

A reportable condition and material weakness was reported for a lack of segregation of duties for revenues, expenditures and payroll systems.

Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. These comments are the result of the size of the Tripp County Water User District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist and is restated under the current audit finding as finding number 2011-01.

TRIPP COUNTY WATER USER DISTRICT
SCHEDULE OF CURRENT AUDIT FINDINGS
AND QUESTIONED COSTS

Current Financial Statement Findings:

Internal Control Over Revenues, Expenditures, and Payroll.

Finding Number 2011-01

A significant deficiency was disclosed by our audit of the financial statements for a lack of segregation of duties for the revenues, expenditures and payroll systems.

Analysis:

For the revenues, expenditures, and payroll functions, there is a lack of segregation of duties because one or two persons perform a major portion of the procedures with limited checks and balances. This may effect the completeness and existence of transactions. This could lead to miscoding of transactions and/or transactions not being recorded.

Recommendation:

We recommend the Tripp County Water User District officials be cognizant of this lack of segregation of duties for revenues, expenditures, and payroll and attempt to provide compensating internal controls whenever and wherever possible and practical.

Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. These comments are the result of the size of Tripp County Water User District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, expenditures, and payroll. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tripp County Water User District
Winner, South Dakota

We have audited the accompanying financial statements of the Tripp County Water User District, South Dakota, as of and for the years ended December 31, 2011 and 2010, as listed in the Table of Contents. These financial statements are the responsibility of the Tripp County Water User District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Tripp County Water User District, South Dakota, as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated May 10, 2012, on our consideration of the Tripp County Water User District's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Tripp County Water User District. The management's discussion and analysis on pages 7 through 13 are presented for purposes of additional analysis and are not a required part of the financial statements. The management's discussion and analysis are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


May 10, 2012

**Tripp County Water User District
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Tripp County Water User District's financial performance provides an overview of the Water District's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Water District's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- During 2011, the Water District's capital assets increased by \$384,187 as a result of water system improvements and equipment purchases and disposals. During 2010 capital assets increased by \$380,486 as a result of water system improvements and equipment purchases.
- For the 2011 fiscal year, water sales for the District were \$1,739,555, an increase of 1.43% from 2010, while operating expenses were \$1,919,333, an increase of 3.39% from 2010. For the 2010 fiscal year, water sales were \$1,715,012, an increase of 4.61% from 2009, while operating expenses were \$1,856,322, an increase of 11.97% from 2009.
- The Water District had a decrease of \$229,303 in net assets in the 2011 fiscal year and a decrease of \$232,307 in net assets in the 2010 fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets (on pages 15 through page 16) provide information about the activities of the Water District as a whole and present a longer-term view of the Water District's finances.

REPORTING THE WATER DISTRICT AS A WHOLE

Our analysis of the Water District as a whole begins on page 7. One of the most important questions asked about the Water District's finances is, "Is the Water District as a whole better off or worse off as a result of the year's activities?" The Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets report information about the Water District as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Water District's *net assets* and changes in them. You can think of the Water District's net assets - the difference between assets and liabilities - as one way to measure the Water District's financial health, or *financial position*. Over time, *increases* or *decreases* in the Water District's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Water District's water revenue base and the condition of the Water District's water distribution system, to assess the *overall health* of the Water District.

In the Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets, the Water District only has one type of activity.

- Business-type activities – The Water District charges a fee to customers to help it cover all of the cost of operating the water distribution system.

REPORTING THE WATER DISTRICT'S SIGNIFICANT FUNDS

Because the Water District only has one fund (a proprietary fund), no fund statements were presented in the financial reports. The proprietary fund uses the following approach in its financial statement presentation.

- *Proprietary funds* – When the Water District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets. In fact, the Water District's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flow, for proprietary funds.

THE WATER DISTRICT AS A WHOLE

The Water District's *combined* net assets changed from 2010 to 2011 – *decreasing* from \$7.41 million to \$7.18 million, for a \$229 thousand decrease in net assets. From 2009 to 2010, *combined* net assets *decreased* from \$7.64 million to \$7.41 million, for a \$232 thousand decrease. Our analysis below will focus on the net assets (Table 1) and changes in net assets (Table 2) of the Water District's business-type activities.

Table 1
Net Assets

	Business-type Activities		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 2,020,995	\$ 1,931,300	\$ 1,988,279
Capital assets	<u>14,742,074</u>	<u>15,419,807</u>	<u>16,107,291</u>
Total assets	<u><u>16,763,069</u></u>	<u><u>17,351,107</u></u>	<u><u>18,095,570</u></u>
Long-term debt outstanding	8,825,050	9,254,297	9,745,143
Other liabilities	<u>757,613</u>	<u>687,101</u>	<u>708,411</u>
Total liabilities	9,582,663	9,941,398	10,453,554
Invested in capital assets, net of debt	5,482,649	5,772,325	5,980,445
Restricted	446,232	416,158	674,931
Unrestricted (deficit)	<u>1,251,525</u>	<u>1,221,226</u>	<u>986,640</u>
Total net assets	7,180,406	7,409,709	7,642,016
Total liabilities and net assets	<u><u>\$ 16,763,069</u></u>	<u><u>\$ 17,351,107</u></u>	<u><u>\$ 18,095,570</u></u>

Net assets of the Water District decreased by 3.09% (\$7.18 million compared to \$7.41 million) in 2011. In 2010, net assets decreased by 3.04% (\$7.41 million compared to \$7.64 million). *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by 2.48% (\$1.25 million compared to \$1.22 million) in 2011 and increased by 23.78% (\$1.22 million compared to \$986 thousand) in 2010.

Table 2
Changes in Net Assets

	Business-type Activities		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues			
Program revenues:			
Water sales	\$ 1,739,555	\$ 1,715,012	\$ 1,639,416
Rent	33,804	33,874	32,884
Other operating revenue	192,201	101,573	78,163
Nonoperating revenues:			
Interest income	9,455	13,695	12,516
Net capital contributions	23,592	106,878	1,075,564
Total revenues	<u>1,998,607</u>	<u>1,971,032</u>	<u>2,838,543</u>
Expenses			
Operating expenses:			
Cost of sales & service	546,635	463,587	437,489
Administrative	299,108	324,765	263,924
Depreciation	1,073,590	1,067,970	956,422
Nonoperating expenses:			
Interest expense	308,577	347,017	305,850
Transfer to/(from) restrictive reserves	30,074	(258,773)	5,677
Total expenses	<u>2,257,984</u>	<u>1,944,566</u>	<u>1,969,362</u>
Excess of revenues over expenses	(259,377)	26,466	869,181
Increase/(Decrease) in restricted net assets	<u>30,074</u>	<u>(258,773)</u>	<u>5,677</u>
Increase/(Decrease) in net assets	(229,303)	(232,307)	874,858
Total Net Assets - Beginning	<u>7,409,709</u>	<u>7,642,016</u>	<u>6,767,158</u>
Total Net Assets - Ending	<u>\$ 7,180,406</u>	<u>\$ 7,409,709</u>	<u>\$ 7,642,016</u>

In 2011, the total revenues of the Water District increased by \$27,575, which includes \$23,592 in government grants. In 2010, the total revenues decreased by \$867,511, which includes \$67,479 in government grants. The total cost of all programs and services increased by \$24,571 in 2011 compared to an increase of \$239,654 in 2010.

The Water District's revenues from its operating activities (see Table 2) increased by 6.22% in 2011 compared to an increase of 5.71% in 2010 (\$1,965,560 in 2011, \$1,850,459 in 2010, and \$1,750,463 in 2009) while operating expenses increased by 3.39% in 2011 and increased by 11.97% in 2010. The factors driving these results include:

- The Water District's water system, benefiting from growth in water sales, saw its operating revenues grow, while operating expenses also grew but at a lower rate.
- The Water District's water system operated at a surplus of \$46,227 this year, while in 2010 it had an operating deficit of \$5,863.

THE WATER DISTRICT'S FUNDS

As the Water District completed the year, it reported a fund balance of \$7,180,406, which was less than \$7,409,709 in 2010, which was less than \$7,642,016 in 2009. The following events that caused changes in fund balances should be noted:

- The Water District spent \$395,875 this year on the purchase of capital assets, eighty-six percent of that being spent on water system improvements. The District spent \$380,486 in 2010 on the purchase of capital assets.
- The Water District made principal payments during 2011 of \$389,401, and acquired no new debt. As a result, the Water District's net debt decreased by \$389,401. In 2010, the Water District made principal payments of \$2,915,728 and acquired \$2,435,000 of new debt in the form of bond restructuring.
- The Water District also received \$0 and \$39,399 in "Tap Fees" from new hook-ups from its members during 2011 and 2010 respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the Water District had \$29,006,256 invested in a broad range of capital assets, including land, buildings, equipment, and the water distribution system. (See Table 3). This amount represents a net increase of capital assets owned by the Water District (including additions and deductions) of \$384,187. At the end of 2010, the Water District had \$28,622,069 invested in capital assets, representing a net increase of \$380,486.

Table 3
Capital Assets at Year-end
(Net of Depreciation)

	Business-type Activities		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 645,247	\$ 645,247	\$ 645,247
Buildings	343,215	333,828	333,828
Equipment	544,004	508,341	397,677
Water system	<u>27,473,790</u>	<u>27,134,653</u>	<u>26,864,831</u>
	29,006,256	28,622,069	28,241,583
Less depreciation	<u>14,264,182</u>	<u>13,202,262</u>	<u>12,134,292</u>
Totals	<u>\$ 14,742,074</u>	<u>\$ 15,419,807</u>	<u>\$ 16,107,291</u>

Major additions included:

2011: Water system improvements and equipment purchases.

2010: Water system improvements and equipment purchases.

The Water District's fiscal year 2012 capital plans consist of continuing internal upgrade projects including replacing meters and meter pits and upgrading booster stations and Aquastore tanks. The total expected cost for these projects is approximately \$241,100 and will be paid entirely through internal funding.

Debt

At year-end, the Water District had \$9.26 million in bonds and notes outstanding, versus \$9.65 million last year and \$10.13 million in 2009 – a decrease of 4.02% in 2011 and a decrease of 4.73% in 2010 – as shown in Table 4.

Table 4
Outstanding Debt at Year-end

	Business-type Activities		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Loans payable	\$ 7,072,446	\$ 7,236,847	\$ 7,397,575
Refunding bonds payable	<u>2,210,000</u>	<u>2,435,000</u>	<u>2,755,000</u>
	9,282,446	9,671,847	10,152,575
Less: Unamortized charges	<u>23,021</u>	<u>24,375</u>	<u>25,729</u>
Totals	<u>\$ 9,259,425</u>	<u>\$ 9,647,472</u>	<u>\$ 10,126,846</u>

More detailed information about the Water District's long-term liabilities is presented in Note 5 to the financial statements.

CONTACTING THE WATER DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Water District's finances and to show the Water District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Water District office at 1052 West 1st Street, Winner, SD 57580.

STATEMENTS OF NET ASSETS

TRIPP COUNTY WATER USER DISTRICT

STATEMENTS OF NET ASSETS

ASSETS

	December 31,	
	2011	2010
Current Assets		
Cash and cash equivalents	\$ 1,005,192	\$ 1,044,700
Certificates of deposit	108,044	106,373
Accounts receivable	218,724	121,813
Inventory	153,544	148,218
Prepaid and other current	37,343	31,299
Total current assets	<u>1,522,847</u>	<u>1,452,403</u>
Noncurrent Assets		
Restricted assets		
Cash and cash equivalents with fiscal agent	<u>446,232</u>	<u>416,158</u>
Capital assets		
Land	645,247	645,247
Buildings	343,215	333,828
Equipment	544,004	508,341
Water system	<u>27,473,790</u>	<u>27,134,653</u>
	29,006,256	28,622,069
Less accumulated depreciation	<u>(14,264,182)</u>	<u>(13,202,262)</u>
	<u>14,742,074</u>	<u>15,419,807</u>
Other Noncurrent Assets		
Bond issuance cost, net of amortization	28,222	38,124
Loan origination fees, net of amortization	22,000	23,000
Other noncurrent assets	<u>1,694</u>	<u>1,615</u>
	<u>51,916</u>	<u>62,739</u>
Total noncurrent assets	<u>15,240,222</u>	<u>15,898,704</u>
Total Assets	<u>\$ 16,763,069</u>	<u>\$ 17,351,107</u>

The accompanying notes are an integral part of
these financial statements.

LIABILITIES AND NET ASSETS

	December 31,	
	2011	2010
Current Liabilities		
Accounts payable	\$ 50,195	\$ 27,944
Accrued interest	50,098	51,832
Deferred revenues	222,945	214,150
Current maturities of long-term debt	<u>434,375</u>	<u>393,175</u>
Total current liabilities	<u>757,613</u>	<u>687,101</u>
Noncurrent Liabilities, Net of Current Maturities		
Loans payable	6,903,071	7,068,672
Bonds payable	1,945,000	2,210,000
Deferred interest expenses - debt refunding	<u>(23,021)</u>	<u>(24,375)</u>
Total noncurrent liabilities	<u>8,825,050</u>	<u>9,254,297</u>
Net Assets		
Invested in capital assets, net of related debt	5,482,649	5,772,325
Restricted debt covenants for debt service and reserves	446,232	416,158
Unrestricted	<u>1,251,525</u>	<u>1,221,226</u>
Total net assets	<u>7,180,406</u>	<u>7,409,709</u>
Total Liabilities and Net Assets	<u>\$ 16,763,069</u>	<u>\$ 17,351,107</u>

TRIPP COUNTY WATER USER DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Years Ended December 31,	
	2011	2010
Operating Revenues:		
Water sales	\$ 1,739,555	\$ 1,715,012
Rent	33,804	33,874
Other	192,201	101,573
Total operating revenue	<u>1,965,560</u>	<u>1,850,459</u>
Operating Expenses:		
Costs of sales and service	546,635	463,587
Administrative	299,108	324,765
Depreciation	1,073,590	1,067,970
Total operating expenses	<u>1,919,333</u>	<u>1,856,322</u>
Operating income (loss)	<u>46,227</u>	<u>(5,863)</u>
Nonoperating Revenues (Expenses):		
Interest income	9,455	13,695
Interest expense	<u>(308,577)</u>	<u>(347,017)</u>
Total nonoperating revenues (expenses)	<u>(299,122)</u>	<u>(333,322)</u>
Net income (loss) before capital contributions	(252,895)	(339,185)
Capital Contributions		
User contributions, net of refunds	-	39,399
Government grants	<u>23,592</u>	<u>67,479</u>
Change in net assets	(229,303)	(232,307)
Total Net Assets - Beginning	<u>7,409,709</u>	<u>7,642,016</u>
Total Net Assets - Ending	<u>\$ 7,180,406</u>	<u>\$ 7,409,709</u>

The accompanying notes are an integral part of
these financial statements.

STATEMENTS OF CASH FLOWS

TRIPP COUNTY WATER USER DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2011	2010
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,651,439	\$ 1,753,742
Payments to suppliers	(462,826)	(415,399)
Payments to and on behalf of employees	(359,780)	(309,491)
Other receipts	225,926	135,447
Net Cash Provided by Operating Activities	<u>1,054,759</u>	<u>1,164,299</u>
Cash Flows From Capital and Related Financing Activities		
Capital contributions, net	-	39,399
Purchase of capital assets	(395,857)	(380,486)
Principal paid on capital debt	(389,401)	(160,728)
Interest expense paid	(310,311)	(374,573)
Government grants	23,592	67,479
Bond issuance costs	-	(40,674)
Redemption of 2004 bonds	-	(2,755,000)
Proceed from issuance of 2010 bonds	-	2,435,000
Net Cash Used in Capital and Related Financing Activities	<u>(1,071,977)</u>	<u>(1,169,583)</u>
Cash Flows From Investing Activities		
Proceeds from redemption of certificates of deposit	-	57,842
Purchase of certificates of deposit	(1,671)	(1,675)
Interest received	9,455	13,695
Net Cash Provided by Investing Activities	<u>7,784</u>	<u>69,862</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(9,434)	64,578
Balances - Beginning of Year	<u>1,460,858</u>	<u>1,396,280</u>
Balances - End of Year	<u>\$ 1,451,424</u>	<u>\$ 1,460,858</u>

The accompanying notes are an integral part of
these financial statements.

	Years Ended December 31,	
	2011	2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 46,227	\$ (5,863)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,073,590	1,067,970
Amortization	12,256	57,179
Increase in Patronage Dividends	(79)	-
Changes in assets and liabilities:		
Receivables	(96,911)	34,602
Inventory	(5,326)	15,776
Prepaid expenses	(6,044)	(139)
Accounts payable	22,251	(9,354)
Deferred revenues	8,795	4,128
Net cash provided by operating activities	<u>\$ 1,054,759</u>	<u>\$ 1,164,299</u>

TRIPP COUNTY WATER USER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tripp County Water User District (the District) was created in 1972 for the purpose of financing, constructing, maintaining and operating a rural water distribution system. The District was formed under the laws of South Dakota.

The District operates under the direction of a board of directors who are elected by the members of the district and provides safe drinking water to its members throughout South Central South Dakota.

Basis of Accounting

The financial statements of the District have been prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

Fund Accounting

The accounts of the Tripp County Water User District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. The following funds are used by Tripp County Water User District:

Proprietary Funds

Enterprise Fund: An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing services to its members on a continuing basis be financed primarily through user charges. The Water Fund is the only enterprise fund maintained by the District.

The proprietary funds do not apply all FASB Statements and Interpretations issued after November 30, 1989.

Deposits and Investments

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as follows:

Deposits – The District deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA.

TRIPP COUNTY WATER USER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Deposits and Investments (continued)

Deposits are reported at cost, plus interest, if the account is the add-on type.

The actual bank balances at December 31 were as follows:

	December 31, 2011
	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 500,000
Uninsured, collateral jointly held by District's agent in the name of the state and the pledging financial institution	1,062,150
Uninsured, uncollateralized	<u>5,747</u>
Total Deposits	<u>\$ 1,567,897</u>

The District's carrying amount of deposits was \$1,559,468 at December 31, 2011.

Investments - In general, SDCL 4-5-6 permits water district funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The District had no investments at December 31, 2011 or 2010.

Accounts Receivable

The District deems all amounts fully collectible, thus no allowance of uncollectible amounts has been recorded.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the District considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

Federal Income Taxes

The District qualifies as a political subdivision incorporated under the laws of South Dakota and is not subject to Federal Income Taxes.

TRIPP COUNTY WATER USER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Inventory

The District inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Property, Plant and Equipment

Assets in property, plant and equipment are stated at cost. The District provides for depreciation on a straight-line basis at an annual rate which will amortize the undepreciated cost of depreciation property over estimated remaining service lives. The cost of current repairs and minor replacements is charged to appropriate operating expense and clearing accounts, and the cost of renewals and betterments is capitalized. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Estimated useful lives for financial reporting purposes are as follows:

	<u>Years</u>
Vehicles	3-5
Equipment	5-12
Buildings	20-35
Water System	20-40

The District currently capitalizes all property, plant and equipment purchases exceeding \$2,500 that have a useful life exceeding one year.

Deferred Revenues

In November and December of each year the District pre bills minimum amounts for the next year's water usage. These amounts (both collected and uncollected at year-end) are shown as deferred revenues in the accompanying financial statements.

Capitalized Interest

Interest costs are capitalized when incurred by the District on debt where proceeds are used to finance the construction of assets. Interest earned on proceeds, if any, of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capitalized interest in 2011 was \$0 and 2010 was \$0.

Revenue Recognition

Revenues are recorded on the basis of cycle billings rendered. Unbilled service amounts are not recognized until billed, and are considered immaterial.

TRIPP COUNTY WATER USER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Operating Revenues and Expenses

Operating revenues and expenses for the District are those that result from providing services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Equity Classifications

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Accumulated Unpaid Vacation and Sick Leave

Employees earn 12 to 18 days of annual leave per calendar year depending upon length of employment. In the event of termination, an employee is reimbursed for only unused accumulated annual leave. Employees are required to use their accumulated annual leave in the year in which it is earned; if not used, the annual leave is lost. Therefore, there is no accrual for annual leave at the end of the calendar year.

Sick leave is accumulated by full time employees at a rate of 1 day per month of employment, not to exceed 180 days. No cash payment will be made for sick leave upon termination, therefore no accrual is recognized.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

TRIPP COUNTY WATER USER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Restricted Assets

Restricted assets consisted of the following at December 31,

	2011	2010
Reserve deposit required by FmHA	\$ 88,918	\$ 52,360
Funds on deposit with fiscal agent for purpose of interest and principal payments on 2004 Bonds	<u>446,232</u>	<u>416,158</u>
	<u>\$ 535,150</u>	<u>\$ 468,518</u>

Note 3. Capital Assets

The following is a summary of changes in capital assets:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Land	\$ 645,247	\$ -	\$ -	\$ 645,247
Buildings	333,828	9,387	-	343,215
Equipment	508,341	47,333	(11,670)	544,004
Water System	<u>27,134,653</u>	<u>339,137</u>	<u>-</u>	<u>27,473,790</u>
Totals	\$ 28,622,069	\$ 395,857	\$ (11,670)	\$ 29,006,256
Less Accumulated Depreciation for				
Buildings	48,164	9,428	-	57,592
Equipment	365,926	38,044	(11,670)	392,300
Water System	<u>12,788,172</u>	<u>1,026,118</u>	<u>-</u>	<u>13,814,290</u>
Total accumulated depreciation	<u>13,202,262</u>	<u>1,073,590</u>	<u>(11,670)</u>	<u>14,264,182</u>
Net Capital Assets	<u>\$ 15,419,807</u>	<u>\$ (677,733)</u>	<u>\$ -</u>	<u>\$ 14,742,074</u>

Note 4. Bond Issuance Costs and Loan Origination Fees

Expenses of \$40,674, which were incurred in connection with the issuance of the 2010 Rural Water System Refunding Bonds, were capitalized and are being amortized over the life of the bonds.

The unamortized issuance cost of the 2004 Rural Water System Refunding Bonds were written off in 2010.

Amortization expense of \$12,256 and \$57,179 has been charged to operations for the years ending December 31, 2011 and 2010, respectively.

TRIPP COUNTY WATER USER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt

The following is a summary of changes in long-term debt:

	Debt 12/31/2010	Retired	New Debt	Debt 12/31/2011	Due Within One Year
USDA FmHA Loans	\$ 3,971,341	\$ (53,370)	\$ -	\$ 3,917,971	\$ 55,233
Berkadia Finance	181,036	(14,819)	-	166,217	15,612
State of SD - State Revolving Fund	3,084,470	(96,212)	-	2,988,258	98,530
2010 Bond Indebtedness	<u>2,435,000</u>	<u>(225,000)</u>	<u>-</u>	<u>2,210,000</u>	<u>265,000</u>
Total Debt	9,671,847	(389,401)	-	9,282,446	434,375
Deferred interest expense	(24,375)	1,354	-	(23,021)	-
	<u>\$ 9,647,472</u>	<u>\$ (388,047)</u>	<u>\$ -</u>	<u>\$ 9,259,425</u>	<u>\$ 434,375</u>

Long-Term Debt consisted of the following at December 31,

	2011	2010
USDA-FmHA - 4.5%, payable in monthly installments of \$1,148, due January 2043.	\$ 230,045	\$ 233,417
USDA - FmHA 4.875%, payable in monthly installments of \$3,141, due November 2035.	530,603	542,197
USDA - FmHA 4.375%, payable in monthly installments of \$2,368, due June 2044.	492,040	498,830
USDA - FmHa - 4.125%, payable interest only in 2007, monthly installments of \$1,088, due December 2045.	238,308	241,491
USDA - FmHA - 4.125%, payable interest only in July, 2009, then monthly installments of \$10,741, due June 2048.	2,426,975	2,455,406
State of South Dakota - State Revolving Fund Loan, 0%, payable in quarterly installments of \$1,095, due October 2034.	100,793	105,175
State of South Dakota - State Revolving Fund Loan, 2.5%, payable in quarterly installments of \$41,546, due October 2034.	2,887,465	2,979,295
Berkadia Finance - 5%, payable in monthly installments of \$1,964, due July 2020	166,217	181,036

TRIPP COUNTY WATER USER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	<u>2011</u>	<u>2010</u>
Water Revenue Refunding Bonds, Series 2010, due in annual installments of \$225,000 to \$545,000, plus interest ranging from 1.0% to 3.25%. Average coupon rate is 2.75%.	\$ 2,210,000	\$ 2,435,000
Total long-term debt	9,282,446	9,671,847
Deferred interest	(23,021)	(24,375)
Less current maturities	(434,375)	(393,175)
	<u>\$ 8,825,050</u>	<u>\$ 9,254,297</u>

The State Revolving Fund Loans are secured by real estate, all goods and equipment.

The Bonds constitute an absolute and unconditional obligation of the District and shall be payable solely from its gross revenues and amounts held therefore by the Trustee under resolution.

On July 1, 2010, the District issued \$2,435,000 in Water Revenue Refunding Bonds, Series 2010 with an average interest rate of 2.7495273%. The net proceeds of \$2,394,326 (after payment of \$40,674 of issuance costs and discounts) along with existing Bond Debt Reserve Funds were used to retire the Series 2004 Revenue Bonds and establish a new debt reserve account of \$243,500.

The District completed the current refunding to reduce its total debt service payments over the next eight years by \$222,875 and to obtain an economic gain (difference between the present value of the old and new debt service payments of \$228,049).

The annual requirements to retire debt is as follows:

Year(s) Ended	Principal	Interest	Total Requirement
2012	434,375	301,629	736,004
2013	445,000	292,427	737,427
2014	455,834	281,867	737,701
2015	466,884	270,318	737,202
2016	478,160	257,041	735,201
2017-2021	1,872,399	1,052,636	2,925,035
2022-2026	1,123,066	835,289	1,958,355
2027-2031	1,320,584	637,771	1,958,355
2032-2036	1,164,560	409,911	1,574,471
2037-2041	669,994	250,706	920,700
2042-2046	675,385	103,897	779,282
2047-2051	176,205	5,478	181,683
	<u>\$ 9,282,446</u>	<u>\$ 4,698,970</u>	<u>\$ 13,981,416</u>

TRIPP COUNTY WATER USER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Retirement Plan

The Water District participates in the National Telephone Cooperative Association (NTCA), a cost-sharing, multiple employer defined benefit pension plan. This plan is authorized by SDCL 46A-9-78.

Employees who retire at or after age 65 are entitled to a retirement benefit, payable monthly for life. The benefit is based on final average earnings multiplied by a product of 2.168% multiplied by the sum of accumulated system and participant net contribution percents. Employees may retire at or after age 55 and receive reduced benefits. There are no vesting requirements. The retirement system also provides death benefits.

The National Telephone Cooperative Association issues a stand alone financial report on an annual basis. Copies are available at the NTCA's service center located in Asheville, NC or can be reviewed at the Water District's administrative office.

Covered employees are required to contribute 5 percent of their gross salary to the plan. The District is required to contribute an amount equal to 8.4 percent of the employee's gross salary. These provisions are established by the District's Board of Directors and may be amended contingent upon approval by USDA Rural Development.

	2011	2010	2009
Contribution Information:			
Contribution Requirements (total of employee and employer contributions)	\$ 33,834	\$ 31,666	\$ 29,335
Water District Contribution	\$ 21,065	\$ 19,850	\$ 18,150
Percent of Covered Payroll	8.4%	8.4%	8.4%
Employee Contribution	\$ 12,769	\$ 11,816	\$ 11,185
Percent of Covered Payroll	5.0%	5.0%	5.0%

100% of the contribution requirements were contributed for all years.

Note 7. Risks of Loss

Tripp County Water User District is exposed to certain risks of loss, such as fire, casualty, and damage to property. The Water District has purchased adequate commercial insurance to minimize the loss from these occurrences. There have been no settlements exceeding insurance coverage during the preceding fiscal year.

Note 8. Subsequent Events - Date of Management Evaluation

District Management has evaluated subsequent events through May 10, 2012, the date on which these financial statements were completed.